

**E**ver  
**P**rogressing  
**S**ystem

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## To our shareholders

It is anticipated that Japan's domestic economy will continue to have a negative impact on the business environment primarily due to sluggish private consumption and the relatively high unemployment rate that is a byproduct of a downturn in the worldwide economy.

However, it is very encouraging to note the CRO (Contract Research Organization) industry seems unaffected by this tough environment and actually is growing within Japan.



EPS aims to increase its market penetration of its broad range of services including Data Management, Clinical Monitoring and Post Marketing Clinical Studies by actively promoting the following three divisions in our organization;

- Biometrics Division that is responsible for Data Management and Biostatistics
- Clinical Development Division that is responsible for Clinical Monitoring
- Clinical Research Division that is responsible for long term Post Market Clinical Studies

The China Business Department that is responsible for business operations in China and the Business Development Department that is responsible for marketing and promotion will support these divisions.

Our subsidiary company, EPLink Co., Ltd. is expected to increase its revenue significantly through expanding its SMO (Site Management Organization) business.

Cyber Medical Net Co., Ltd. was the only subsidiary company that experienced a financial loss last fiscal year. However, it is expected to show a remarkable recovery in the current fiscal year by concentrating on the temporary employment agency business.

In the current fiscal year which ends September, 2002, we predict that EPS will increase its net revenue 40% to over ¥6 Billion, operating income 51% to ¥836 Million and net income 95% to ¥455 Million, respectively, on a consolidated basis.

We are grateful for your continued support of EPS, as one of the most rapidly growing companies of the 21 century.

**YAN Hao**  
Chairman of the Board and Chief Executive Officer

## **Business Strategy**

### **1. The Policy and Strategy of EPS**

Our mission is to explore and establish a system that is dedicated to improve the efficiency of our day-to-day operation while ensuring that the highest quality standards are adhered to with regard to observing current regulatory requirements. We believe this focus will lead to our achieving high levels of customer satisfaction.

Based on this mission, EPS “Ever Progressing System” will pursue the following strategies to expand its business. These strategies will carry EPS to leadership in the Japanese CRO industry.

#### **1) Broadening services:**

To meet the increasing number of pharmaceutical outsourcing needs for drug development in Japan, EPS will enhance its capabilities to offer a broader range of services from study design through regulatory affairs, including the operation of clinical studies.

EPS also expects to explore the possibility of business collaborations in both pre-clinical studies and Phase I clinical trials.

#### **2) Expansion of SMO business:**

Since the demand for CRC (Clinical Research Coordinators) is expected to increase, EPS will enhance the operation of our subsidiary company, EPLink, to enlarge our SMO (Site Management Organization) business. We believe this SMO operation will provide a significant synergistic effect to the CRO business of EPS.

#### **3) Information Technology**

EPS has a keen interest to implement web-based capabilities in Japan. This will bring about significant efficiencies in the Data Management and Clinical Monitoring process. In addition, EPS has significant experience in providing pharmaceutical companies and investigator sites with customized IT services.

#### **4) Globalization**

EPS will continue exploring business opportunities outside of Japan in responding to the increasing demands for the international drug development and the need to comply with ICH (International Conference on Harmonization). This includes utilizing the business alliance with our CRO partner in the USA and enhancing the operation of subsidiary companies in China.

**5) New Business Opportunities**

Based on the successful track record of both the CRO and SMO business, our subsidiary company, Cyber Medical Net will focus on temporary employment agency and hospital consultancy businesses. In addition, EPS will aggressively explore further business opportunities in the pharmaceutical and medical industry. Another new business opportunity is All Right Software Co., Ltd. This is our subsidiary company and is expected to grow in the field of software development business in both Japan and China.

**6) Quality and Efficiency**

It is our long-term objective to improve the quality of our operations, which we intend to achieve through enhancing our QC/QA division, strict compliance with Standard Operating Procedures, training and education. It is also important to make our operation even more efficient in order to strengthen our price competitiveness. This will be achieved through the establishment of a workflow management system starting from project initiation to the final report submission.

**2. The policy of sharing profit**

As a company policy, EPS deems that sharing profits with its shareholders is significantly important. Our primary policy is to pay appropriate dividends based on the result of operations considering "Return on Equity" and "Payout Ratio" while retaining reasonable internal reserves for the strategic investment of the company in future. Based on this policy, EPS paid ¥7,000 per share including ¥3,500 per share interim dividends in fiscal 2001.

## Review of Operation

### Overview of Fiscal Year 2001

In the fiscal year 2001 ended September 2001, the domestic economy in general remained sluggish. Under this environment, however, the CRO industry has been growing in Japan.

In long-term post-marketing clinical studies, EPS continues providing Data Management and Monitoring services to the following clients;

- Sankyo Co., Ltd. for a cholesterol lowering agent
- Taiho pharmaceutical Co., Ltd. for an anti cancer agent
- Takeda pharmaceutical Co., Ltd. for a diabetes treatment agent

In the first half year, EPS initiated a large scale clinical trial in the lung cancer area, providing the Data Management and Monitoring services to clients including Bristle Pharmaceuticals K.K., Kyowa Hakko Kogyo Co., Ltd. and Japan Eli Lilly K.K.

As to clinical trials conducted for the purpose of market approval, EPS expanded its business in terms of number of both clients and projects by enhancing the Clinical Development division.

In other areas such as patient registration services and advertisement services for patient recruitment, we have expanded our business. In addition, we enhanced the function of our Osaka and Nagoya branches especially for Data Management and Monitoring services.

In our SMO (Site Management Organization) business, EPLink has been rapidly growing through expansion of its CRC (Clinical Research Coordinator) services as well as clinical trial site management services to meet emerging demand.

As for IT (Information Technology) services, EPS set up All Right Software Co., Ltd., a joint venture company with Key Ware Solutions Co., Ltd. and Sun Japan Co., Ltd. aiming at expanding its business in Japan and China.

During fiscal 2001, we increased net revenue 42.2% to ¥4.32 Billion and operating income by 7.2 % to ¥551 Million. Regarding Net Income, the lump-sum amortization of the transition obligation at the time of the adoption of new accounting standards for retirement benefits resulted in a 10.6% drop in net income, to ¥233 Million. (The above net revenue does not include the consumption tax.)

**Remarks:**

**1. Clinical Monitoring Service:**

As clinical trials are conducted in accordance with a study protocol, the required clinical data are recorded in CRFs (Case Report Forms). The protocol, which is developed by sponsors (usually pharmaceutical companies), defines the purpose and endpoints of the study, study design, management system, responsible organization and the statistical analysis plan. CRAs (Clinical Research Associates) or Monitors visit medical sites to have face to face meetings with investigators for purposes such as explaining the content of the protocol, reviewing the status of studies and ensuring that the CRFs are completed correctly prior to collecting the CRFs.

**2. Data Management Service:**

Data Management Services include review and coding of CRF data collected from medical sites, data entry, database verification, statistical analysis and the creation of customized databases to meet each client's needs.

**3. Forward-looking statements:**

Forward-looking statements are based on judgments made with the information available to the EPS group at the date of their formulation and are subject to potential risks or uncertain factors. Various factors that form the basis of these forward-looking statements may differ from the EPS group's assumption and actual results may differ significantly from those presented here.

## Selected Consolidated Financial Data

The selected Consolidated Statement of Operations Data set forth below for each of the year three-year period ended September 30, 2001 and the Consolidated Balance Sheet Data set forth as of September 30, 2001, 2000 and 1999 are arranged to U.S style accounting form from audit statement for reference purpose only, therefore we don't obtain audited English statement.

### YEAR ENDED SEPTEMBER 30 (IN THOUSANDS, JPY)

	<b>2001</b>	<b>2000</b>	<b>1999</b>
Net revenue	4,321,6	3,039,752	1,908,131
Ordinary income	551,527	514,473	295,742
Income before income taxes	495,633	510,869	295,742
Net income	233,943	261,827	127,996
Net income per share	<u>56,851.49</u>	<u>77,248.84</u>	<u>42,590.77</u>

### AS OF SEPTEMBER 30 (IN THOUSANDS, JPY)

Cash and cash equivalents	1,111,851	477,501	230,647
Working capital	1,537,512	639,612	291,565
Total	2,995,735	1,832,596	1,099,408
Long-term debt including current portion	130,180	255,940	150,395
Shareholders' equity	1,965,525	913,943	542,966
Employees	422	296	234

Consolidated Statements of Operations  
(IN THOUSANDS,JPY)

	<b>2001</b>	<b>2000</b>	<b>1999</b>
Net revenue	4,321,656	3,039,752	1,908,131
Costs and expenses;			
Direct	2,839,511	1,860,457	1,160,448
General and administrative	949,609	686,119	500,815
Income from operations	532,535	493,175	246,866
Other income (expense);			
Interest income	428	1,498	3,255
Other	36,229	27,321	53,156
Interest expense	(3,313)	(5,424)	(3,699)
Other	(14,354)	(2,099)	(3,838)
Transaction costs			
Other	(55,893)	(3,604)	-
Income before income taxes	495,633	510,869	295,742
Income taxes	260,833	252,992	166,588
Minority interests in net income	856	(3,949)	1,158
Net income	<u>233,943</u>	<u>261,827</u>	<u>127,996</u>
Net income per share	<u>56,851.49</u>	<u>77,248.84</u>	<u>42,590.77</u>

## Consolidated Balance Sheets

(IN THOUSANDS JPY)

## ASSETS

		2001	2000	1999
<b>CURRENT ASSETS</b>				
Cash and cash equivalents		1,111,851	477,501	230,647
Notes and accounts receivable		1,007,853	664,294	331,385
Inventory		59,761	98,355	44,974
Deferred income tax assets		38,972	22,496	12,039
Temporary payments		89,227	63,727	68,115
Others		41,145	36,111	30,224
Allowance for doubtful accounts		(3,624)	(2,852)	(2,320)
Total current assets		<u>2,345,187</u>	<u>1,359,634</u>	<u>715,066</u>
<b>FIXED ASSETS</b>				
Tangible Assets:				
Buildings and leasehold improvements		55,414	40,876	6,468
Less accumulated depreciation		(13,063)	(6,371)	(2,357)
Furniture and fixtures		93,009	81,169	73,963
Less accumulated depreciation		(56,874)	(49,153)	(37,885)
Others		16,251	3,174	6,978
Less accumulated depreciation		(2,006)	(1,541)	(4,330)
Total tangible Assets		<u>92,730</u>	<u>68,152</u>	<u>42,836</u>
Intangible assets		20,876	17,822	5,790
Investment&other assets				
Long-term Loan(credit)		-	2,640	50,660
Deferred income tax assets		55,878	21,044	14,312
Investment to anonymous union		48,229	60,000	60,000
Deposits		321,333	265,133	208,638
Others		133,238	75,876	52,552
Allowance for investment loss		(21,738)	(39,920)	(52,083)
Total intangible and other assets		<u>557,816</u>	<u>402,596</u>	<u>339,870</u>
Total fixed assets		<u>650,546</u>	<u>470,748</u>	<u>382,706</u>
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS		-	2,211	1,634
<b>TOTAL ASSETS</b>				
<u>2,995,735</u> <u>1,832,596</u> <u>1,099,408</u>				
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable		84,342	46,030	15,724
Current portion of Long-term debt		104,540	125,760	59,845
Income taxes payable		178,305	186,406	114,521
Provision for bonus		143,213	101,790	74,711
Others		297,274	260,034	158,697
Total current liabilities		<u>807,675</u>	<u>720,022</u>	<u>423,501</u>
<b>LONG-TERM LIABILITIES</b>				
Long-term debt less current portion		25,640	130,180	90,550
Provision for retirement		63,574	-	-
Provision for director's retirement		70,233	50,047	34,037
Total long-term liabilities		<u>159,448</u>	<u>180,227</u>	<u>124,587</u>
<b>TOTAL LIABILITIES</b>		<u>967,123</u>	<u>900,249</u>	<u>548,089</u>
Minority interests		63,085	18,402	8,352
Common stock		618,750	300,000	210,000
Additional paid-in capital		568,800	41,550	3,800
Retained earnings		778,337	572,393	329,166
Unrealized gain on available-for-sales securities		534	-	-
Foreign currency translation adjustments		(896)	-	-
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<u>1,965,525</u>	<u>913,943</u>	<u>542,966</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u>2,995,735</u>	<u>1,832,596</u>	<u>1,099,408</u>

## Company Profile

Capital            ¥ 618.75 Million  
Main Services    CRO business and System Development  
E-Mail            info@eps.co.jp  
URL                www.eps.co.jp

### Locations (Headquarter)

Shuwaiidabashi Bldg., 2-3-19 Koraku, Bunkyo-ku,  
Tokyo 1120004    TEL. + 81-3-5684-7797    FAX. + 81-3-5684-4785

#### (Annex.1)

2nd floor, Hongo TK Bldg., 1-28-10 Hongo, Bunkyo-ku,  
Tokyo 1130033    TEL. + 81-3-5800-7560    FAX. + 81-3-5800-7562

#### (Annex.2)

4th floor, Kyodo Bldg., 2-26 Shimomiyabi-cho, Shinjuku-ku,  
Tokyo 1620822    TEL. + 81-3-5804-7744    FAX. + 81-3-5804-7827

### (Osaka Branch)

11th floor, Nissei Shin-osaka Bldg., 3-4-30 Miyahara, Yodogawa-ku,  
Osaka 5320003    TEL. + 81-6-4807-7107    FAX. + 81-6-4807-1035

### (Nagoya Branch)

A-2 6th floor, Horiuchi Bldg., 3-25-9 Meieki, Nakamura-ku,  
Nagoya 4500002    TEL. + 81-52-581-8887    FAX. + 81-52-581-8817

### (Fukuoka Branch)

5th floor, Hakatamitui Bldg., 10-1 Kamigofukumachi, Hakata-ku,  
Fukuoka 8120036    TEL. + 81-92-263-5480    FAX. + 81-92-263-5416

## Members of the Board and Auditors

Chairman	Mr. Hao Yan
Executive Director	Mr. Koichi Jingu
Directors	Mr. Takeshi Adachi
	Mr. Kiyoshi Fujimaru
	Mr. Tomohiro Tominaga
	Mr. Yasuharu Tamai
Auditors	Mr. Kozo Okunaga
	Mr. Junichi Ishikawa
	Mr. Toshihiko Shichida

## Current situation of shares

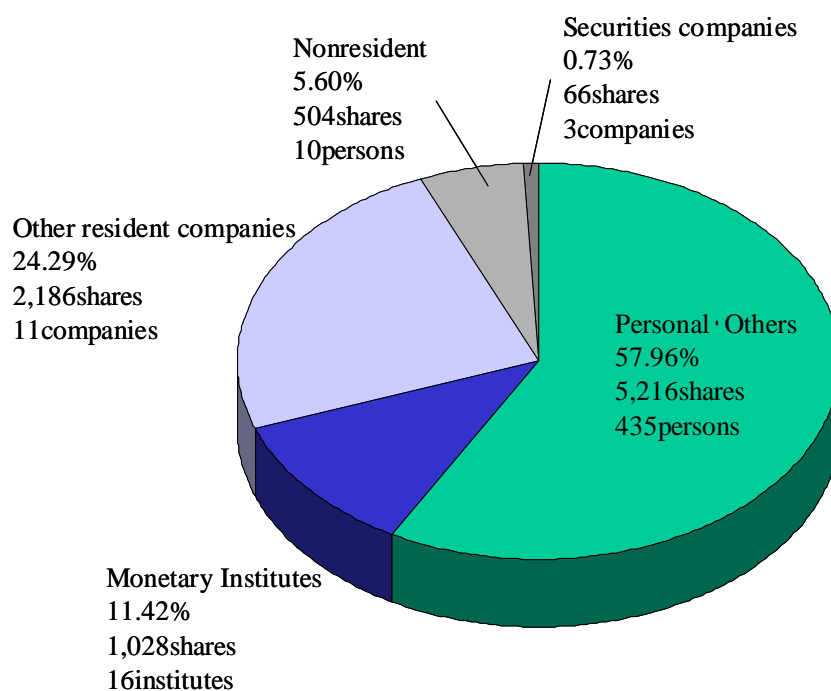
Authorized stocks	36,000
Share of common stock issued	9,000
Number of stockholders	475(as of 30 <sup>th</sup> September 2001)

## Principal shareholders

Shareholder	Share held	Percentage of total
Hao Yan	2,116	23.5%
Y&G Limited	1,922	21.4%
EPS employees shareholding union	688	7.6%
Sumitomo Life Insurance Mutual Co.	300	3.3%
Goldman Sachs International	250	2.8%
Toyota Tsusho corporation	200	2.2%
Tokyo Marin & Fire Insurance	180	2.0%

Note: The above number of shares is revealed after stock split as of 20<sup>th</sup> November 2001

## Classification of stockholders (as of 30<sup>th</sup> September 2001)



### Guide of Stock

Yearend

End of September

Annual general stockholders meeting

Within December

The date stockholders are decided to  
be entitle to obtain dividends

Annual dividend

End of September

Interim dividend

End of March

Official bulletin

Nikkei (newspaper)

Transfer agent: Chuoh Mitsui Trust Bank Co., Ltd.